

Comments for the Record
House Committee on Ways and Means
Subcommittee on Select Revenue Measures
Hearing on Certain Expiring Tax Provisions

Thursday, April 26, 2012, 10:00 AM

By Michael G. Bindner

Center for Fiscal Equity

Chairman Tiberi and Ranking Member Neal, thank you for the opportunity to submit these comments for the record to the House Ways and Means Committee Subcommittee on Select Revenue Measures.

Doing nothing is a possible solution to almost every issue, especially expiring tax provisions. While this is possible, it is not likely, as each of these provisions has adherents, as testimony, comments submitted for the record and calls to staff have likely demonstrated. If the economy is more robust in December than current forecasts suggest, there is always the possibility that these provisions will be allowed to expire by the President with all other temporary tax provisions if the House majority proves intransigent on negotiations to increase revenue. Indeed, the hint that he might do so may be the strongest impetus to compromise, as wealthier citizens have much more to lose from letting the Clinton era tax rates concern than the average taxpayer.

Congress and the Administration could do the minimum required. Sadly, this is the most likely scenario given the state of the national economy. The most likely way is to delay action until after the election and, as a package, extend the debt limit through December 2013 in exchange for extending the expiring income, payroll, unemployment and medical payment provisions for an equal period of time, including extending the temporary tax provisions while accepting the temporary pain of one year of sequestration.

A slightly more ambitious version of this scenario, which leaves less to chance as far as the impact of the election (as a lame duck President has no interest in any compromise at all) is to extend the debt limit, doc fix suspension, temporary expiring tax cuts, the payroll tax cut, extended unemployment and tax rates for middle class and wealthy taxpayers through December 2013 in exchange for making certain tax cuts for lower income Americans permanent, including the 10% tax rate and expanded Child Tax Credit – offsetting some or all of the spending cuts that have already been agreed to. This allows discourse on tax reform without holding our most vulnerable citizens hostage.

Should the President indicate that he is likely to let gridlock rule the day, a medium ball solution is more likely. Opposition to a balanced solution will evaporate should he hint he will accept automatic tax cuts increases, as major Republican donors tell their members to compromise. The balanced solution is some combination of the cuts and tax reforms supported by the majority of the Fiscal Commission, also known as Bowles-Simpson, and the proposals of the Bipartisan Policy Center, also known as Rivlin-Domenici. Many of these proposals are similar and where they coincide seems like a fruitful place to start drafting legislation. Using the congressional budget process to begin enacting these provisions could occur in regular order, with the Department of the Treasury playing a supporting role in writing tax reform language. Under such a scenario, many expiring tax provisions could fall, but this is less likely without radical change.

The large ball game would be to actually balance the budget and enact radical reform in entitlement revenue and spending provisions, a shift from income taxes for most filers to consumption taxes and higher tax rates on those most ability to pay. The Center for Fiscal Equity proposes a large ball solution with four major provisions:

- A Value Added Tax (VAT) to fund domestic military spending and domestic discretionary spending with a rate between 10% and 13%, which makes sure very American pays something.
- Personal income surtaxes on joint and widowed filers with net annual incomes of \$100,000 and single filers earning \$50,000 per year to fund net interest payments, debt retirement and overseas and strategic military spending and other international spending, with graduated rates between 5% and 25% in either 5% or 10% increments. Heirs would also pay taxes on distributions from estates, but not the assets themselves, with distributions from sales to a qualified ESOP continuing to be exempt.
- Employee contributions to Old Age and Survivors Insurance (OASI) with a lower income cap, which allows for lower payment levels to wealthier retirees without making bend points more progressive.
- A VAT-like Net Business Receipts Tax (NBRT), which is essentially a subtraction VAT with additional tax expenditures for family support, health care and the private delivery of governmental services, to fund entitlement spending and replace income tax filing for most people (including people who file without paying), the corporate income tax, business tax filing through individual income taxes and the employer contribution to OASI, all payroll taxes for hospital insurance, disability insurance, unemployment insurance and survivors under age 60.

Under this scenario, many temporary tax provisions would no longer be needed, since the nature of the tax code would change. With the expiration of the corporate income tax, provisions granting exceptions to it would no longer be necessary and would stick out like a sore thumb when attached to any kind of consumption tax covering both wages and profits. Likewise, the income surtax we propose will have few, if any, deductions. Radical reform is the surest way to overcome resistance to allowing tax extenders to permanently expire.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Contact Sheet

Michael Bindner
Center for Fiscal Equity
4 Canterbury Square, Suite 302
Alexandria, Virginia 22304
571-334-8771
fiscalequity@verizon.net

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This testimony is not submitted on behalf of any client, person or organization other than the Center itself, which is so far unfunded by any donations.